

# Corporate Governance Report

June 30, 2022

AICA Kogyo Co., Ltd.

Kenji Ebihara

Representative Director and President

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Securities Code: 4206

Note: This is a translation of the Japanese language original for convenience purpose only, and in the event of any discrepancy, the Japanese language original shall prevail.

The corporate governance of AICA Kogyo Co., Ltd. (“AICA”) is described below.

## I. Basic Views on Corporate Governance, Capital Structure, Corporate Profile and Other Basic Information

### 1. Basic Views

AICA Group seeks to ensure and improve the value of AICA and the common interests of its shareholders through the enhancement of corporate governance at each of its Group companies, including its subsidiaries in Japan and overseas. In June 2020, AICA transitioned from a Company with Board of Auditors to a Company with Audit and Supervisory Committee. The Audit and Supervisory Committee, more than half of whose members are external directors, is responsible for auditing and supervising the legality and appropriateness of the execution of duties by directors for the realization of more transparent management. In this way, AICA aims to strengthen our corporate governance further and also to build a framework that will more appropriately meet the expectations of our stakeholders in Japan and overseas. AICA has also established a Governance Committee as an advisory committee to the Board of Directors. This committee is chaired by an external director and its members are also primarily external directors. The Governance Committee deliberates on key matters concerning governance, including the appointment and remuneration of management executives, with the aims of sustainable growth, medium to long-term improvement of corporate value, and further enhancement of governance functions.

### [Reasons for Non-compliance with the Principles of the Corporate Governance Code]

#### **Supplementary Principle 3.1.3 Disclosing Business Strategies including Addressing Sustainability Initiatives, Investments in Human Capital and Intellectual Properties**

<Disclosure on Sustainability>

Our initiatives on sustainability issues are disclosed in AICA Reports (integrated reports) as well as on our website. Since the Medium-Term Business Plan includes materiality targets, AICA will disclose the targets and results of sustainability initiatives in IR documents.

In May 2020, AICA declared its endorsement of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), recognizing that identifying risks and opportunities associated with climate change and their proper responses would be a priority from the materiality perspective. As a first step to include more information that TCFD says should be disclosed, AICA surveyed our stakeholders to estimate how future climate change would impact our business environment in fiscal year 2020. This survey allowed us to identify risks and opportunities associated with climate change, along with actions to take in preparation for such events. AICA began our scenario analysis in fiscal year 2021 and are conducting a qualitative impact assessment of the risks and opportunities identified in fiscal year 2020. AICA will then consider publishing them in the AICA Report, scheduled for publication in September 2022. AICA also plan to proceed with a

quantitative financial impact assessment of each risk and opportunity during this fiscal year. However, due to the revision of the TCFD recommendations in October 2021, including a renewed emphasis on disclosure requirements for climate transition planning, AICA is still in the progress of living up to the TCFD recommendations and will need to enhance the quality and quantity of disclosure.

For more information, refer to the Response to the TCFD Recommendations (Reference) explained at the end of this report.

<Investments in Human Capital and Intellectual Properties>

AICA believes that human resources are the most important assets for the management. Under the current Medium-Term Business Plan, AICA aims to enhance training programs, foster leadership skills, encourage career advancement, and develop human resources for global operations. While developing human resources to enhance corporate sustainability, AICA promotes diversity in the workplace allowing the organization to grow with employees.

In addition, AICA have decided to strengthen our personnel database and introduce a talent management system for the purpose of visualizing and proactively disclosing non-financial information. The talent management system will start in fiscal year 2023.

As for investments in intellectual properties, AICA has been using the R&D budget of 12 billion yen under the current Medium-Term Business Plan by allocating it to the AICA's strengths in chemistry and design to create value and the development of core products for the next generation.

**Supplementary Principle 4.1.3 Succession Plan for the CEO and Other Top Executives**

The Governance Committee gathers input from all directors regarding the presidential candidates ones a year from December 2018. The Governance Committee reports its findings at the Governance Committee meeting at the end of January or March of each year. The Governance Committee deliberates on the requirements for the appointment of a presidential candidate and the presidential candidates. After that, the Governance Committee selects the presidential candidate.

Prior to holding Board of Directors meeting to approve the appointment of a new president on the January 27, 2022, the Governance Committee met and discussed the final draft of the appointment proposal with the Governance Committee and obtained the approval of each member of the Governance Committee.

Based on this process for selecting a new president, AICA will establish a process for selecting a new presidential candidate in the future.

**Supplementary Principle 4.3.3 Dismissal of a CEO**

Although AICA has not established a specific process for dismissal of a CEO at this moment, should the CEO be deemed unable to fulfill his or her responsibilities, AICA will appropriately address the issue in a timely manner.

## [Disclosure Based on the Principles of the Corporate Governance Code]

### **Principle 1.4 Cross-Shareholdings**

- AICA will acquire and hold shares of companies such as business partners if AICA determines that it will contribute to the improvement of AICA's corporate value from the perspectives of building and enhancing relationships with business partners as well as forming business alliances. The Board of Directors considers the medium- to long-term economic rationale twice annually, and shares with little value will be sold. For each stock, AICA evaluates factors such as the details of transactions, the value of transactions, and the plan for continuation of future relationships to verify whether the purpose of holding such shares is appropriate.
- AICA exercises its voting rights for shares held as cross-shareholdings by comprehensively considering factors such as whether it contributes to the improvement of corporate value of both the issuing company and AICA, as well as whether there is a risk of impairing shareholder value. In addition, in the case of an event that requires attention, such as a long-term slump in business results or a serious violation of compliance, AICA will sufficiently investigate and collect information before carefully determining whether to vote for or against a proposal.

### **Principle 1.7 Related Party Transactions**

- AICA has designated transactions between AICA and its Directors or major shareholders with conflicts of interest as matters requiring resolution and reporting by the Board of Directors based on the importance of the transactions, in accordance with laws and regulations as well as the Rules of the Board of Directors.
- In addition, AICA has designated transactions between AICA and its Group companies as well as other important matters as matters requiring approval of the Board of Directors of AICA in accordance with the Regulations on Management of Affiliated Companies and the Regulations on Approvals (*Ringi*).

### **Supplementary Principle 2.4.1 Disclosure of Views on Ensuring Diversity in Core Human Resources, Such as the Promotion of Women, Foreign Nationals and Mid-career Hires to Managerial Positions**

#### 1. Views on ensuring diversity

AICA's Corporate Policy says, "Human resources are the most valuable resource to the company" and "We build vibrant human resources as well as organizations through mutual understanding and growth." AICA also recognizes diversity as an essential element of its sustainable growth and promotes diversity in human resources (including foreign nationals, women, seniors, and people with disabilities) as defined in the Sustainability Policy aligned with the Corporate Policy. In order to accommodate diverse market needs and respond to the global expansion of businesses, AICA launched the Women's Participation Promotion Project in June 2013 to promote diversity and improve the environment that will encourage the company to leverage women's strengths in its business operations and corporate management. In recognition of these activities, AICA received the Excellence Award from the City of Nagoya for being certified as a Company Promoting Women's Participation in 2016. AICA renamed the activities Diversity Promotion Project in the fiscal year 2018 and has been working to improve the workplace that will encourage the participation of diverse talent.

Activity Targets for Promoting Diversity (available in Japanese only)

<https://www.aica.co.jp/recruit/diversity/index.html>

#### 2. Voluntary and measurable goals for ensuring diversity

##### (1) Promotion of women to managerial positions

Since 2014, ten female employees have been promoted to managers, covering broader business segments, including sales, administration, and production divisions. AICA will continue to increase the ratio of female managers and expand the scope of participation by providing equal opportunities through promotion and hiring, helping them network and be independent, aiming to optimize the management. (Target) Ratio of female management positions(fiscal year 2025): 5.8 %(fiscal year 2021 results : 3.8%)

##### (2) Inviting foreign nationals to managerial positions

Three foreign nationals were appointed executive officers at the Board of Directors meeting held on April 1, 2022.

AICA continuously practices equal opportunity hiring regardless of nationality and currently has seven foreign nationals joined as new graduates or mid-career hires. They play active roles in a wide range of fields, including overseas locations, sales, R&D, and administrative divisions. AICA is actively recruiting foreign

nationals as it expands its business globally. In the mid to long term, AICA aims to grow into a corporation with culturally diverse teams ready to meet various needs in the organization.

### (3) Inviting mid-career hires to managerial positions

AICA recruits a certain number of mid-career professionals every year to have experienced personnel with minimum training. AICA hired 20 people (including two managers) in fiscal year 2021, five people in fiscal year 2020, and 21 people (including three managers) in fiscal year 2019 as mid-career hires, for a wider range of positions, including sales, R&D, administrative divisions and production technology. AICA currently has 293 mid-career hires, and 62 of them are serving as director, executive officer, or holding other managerial positions. The ratio of mid-career hires in the executive positions (director and executive officer) is 50% to the total number of executive officers. The ratio is 24% for managerial positions. AICA will continue to encourage mid-career hiring and their recruitment to managerial positions as part of our management strategy.

### 3. Policy for developing personnel and internal environment to ensure diversity, and other circumstances

Under the Corporate Policy and the Sustainability Policy, related departments, committees, and project teams (the Diversity Promotion Project, the Sustainability Promotion Committee, the Career Support Section, and the Work Style Reform Promotion Project) formulate specific action plans and implement the policies. Human resources are the most valuable resource for AICA. AICA strives to grow with employees by creating a workplace where diverse individuals respect and encourage each other.

Our work environment is undergoing a transition, such as a workforce shortage, facing diversified needs and changes in work styles, but AICA will be prepared to adapt to such changes flexibly and promptly following our Corporate Principle “Challenge and Creation.”

### **Principle 2.6 Roles of Corporate Pension Funds as Asset Owners**

AICA has adopted both a defined benefit pension plan and a defined contribution pension plan. The Human Resources Department, which is the division in charge of managing the defined benefit pension fund, appropriately manages it such as by obtaining information on the status of management from asset managers including life insurance companies and trust banks.

### **Principle 3.1 Full Disclosure**

#### (1) AICA objectives (e.g., corporate philosophy), management strategies, and business plans

AICA objectives (corporate philosophy), management strategies and business plans are disclosed on AICA's website.

<Corporate Principle>

Challenge and Creation

<Corporate Philosophy>

- The AICA Group creates new value and contributes to society through continuous innovation in the spirit of our philosophy of *Kyosei*\*.

\* Japanese word *Kyosei* stands for active engagement with the AICA Group's stakeholders (customers, employees, shareholders, suppliers, business partners, and local communities etc.) and the global environment. *Kyosei* represents our approach to minimize the adverse effects of the AICA Group's business activities and products, and to contribute to society through the value we create and build better relationships with surroundings, with aiming for a sustainable existence together with the stakeholders mentioned above.

<Corporate Policy>

#### 1. Chemistry and Design

We create uniquely original products through the power of chemistry and design, to contribute to the achievement of a prosperous society.

#### 2. Group Synergies

We create group synergy through collaboration in technologies and market network.

#### 3. Leading Products

Throughout the specific domains and regions of our business, we enhance and expand our market-leading products.

#### 4. Global Presence

We strive to achieve sustainable growth in global markets by enhancing the capabilities of our overseas operations and participating in the higher growth sectors.

5. Human Resources and Organizations

Viewing human resources as the most vital resource of our company, we nurture motivated human resources and organizations through mutual understanding and development.

6. Compliance Management

We practice fair and transparent management in accordance to all relevant laws, regulations, and social order.

7. Commitment to Safety and Security

We ensure trusted quality and engage in environmentally considerate business activities by focusing on our communication with stakeholders.

< Sustainability Policy >

1. We address social issues through our business activities to contribute to the creation of a better society.
2. We have established “Compliance with laws and regulations,” “Respect for human rights,” “Harmony with society,” “Fair business practice,” “Customer’s security and trust,” “Proper information disclosure,” “Protection of company information and property,” and “Environment and safety” as the basic principles of the Code of Conduct, and we base our actions on these principles as shared values for all employees.
3. We emphasize dialogue with stakeholders, including customers, employees, shareholders, suppliers, business partners, local communities, and local governments, and respond promptly to social needs and changes.
4. We identify material issues from the perspectives of both corporate management and stakeholders, address those issues alongside our business activities, and disclose our progress in addressing them.

< Aica’s 10 years vision >(FY2016-FY2026)

[Financial targets]	Consolidated net sales:	300.0 billion yen
	Consolidated ordinary profit:	30.0 billion yen
	ROE:	10% or more
	Overseas sales Ratio:	45% or more

Please refer to AICA’s website for details.

(URL: <https://www.aica.co.jp/english/company/philosophy/vision/>)

<Medium-Term Business Plan “Change & Grow 2400”>(FY2021-FY2023)

[Financial targets]	Consolidated net sales:	240.0 billion yen
	Consolidated ordinary profit:	24.0 billion yen
	ROE:	Approximately 10%

Please refer to AICA’s website for details.

(URL: <https://www.aica.co.jp/english/company/philosophy/vision/>)

(2) Basic views and guidelines on corporate governance

- Basic views on corporate governance are disclosed on AICA’s website and in this report.

(3) Board policies and procedures in determining the remuneration of the senior management and directors

- The details of decision-making policies regarding the contents of individual remuneration for directors are as follows.

1. Composition of remuneration

Remuneration of directors (excluding directors who are members of the Audit and Supervisory Committee and external directors) consists of fixed monthly basic remuneration, variable performance-based remuneration, and stock remuneration. The stock remuneration was approved and passed at the 121st Ordinary General Meeting of Shareholders held on June 24, 2021, under Proposal 4: Determination of Remuneration for Granting Restricted Shares to Directors (Excluding Directors Who Are Members of the Audit and Supervisory Committee and External Directors). Meanwhile, remuneration of directors who are members of the Audit and Supervisory Committee and external directors consists solely of monthly basic remuneration from the perspectives of their roles and independence.

(i) Basic remuneration

Basic remuneration of directors is fixed remuneration, paid monthly. Its amount is determined by considering factors such as levels at other companies that have been publicly disclosed and AICA’s business results, based on a standard amount set for each position.

(ii) Performance-based remuneration

Performance-based remuneration to directors (excluding directors who are members of the Audit and Supervisory Committee and external directors) is provided once a year. When the business results for each fiscal year have been finalized, each director is individually evaluated on a five-tier scale of S, A, B, C and D to determine the amount of individual remuneration based on a standard amount set for each position. Individual evaluation is determined by considering factors such as the growth rates of consolidated and non-consolidated net sales and profits (e.g., operating profit), the attainment of budgets formulated at the beginning of the fiscal year, evaluation on duties each director is in charge of, and the progress of the Medium-Term Business Plan.

The ratio of performance-based remuneration to the total amount of remuneration is determined according to each director's role, targeting a range from 15% to 20%. Upon comprehensively taking into account the attainment of the above indicators, the ratio of performance-based remuneration to total amount of remuneration was 14.7%.

(iii) Stock remuneration

Stock remuneration to directors (excluding directors who are members of the Audit and Supervisory Committee and external directors) is planned to be granted once a year for the purpose of providing an incentive to aim for sustainable improvement of AICA's corporate value and facilitating further sharing of value with shareholders. Stock remuneration is granted in the form of restricted stock, and the amount is determined by considering factors such as AICA's business results based on a standard amount set for each position.

2. Evaluation of directors

(i) Individual evaluation of directors (excluding directors who are members of the Audit and Supervisory Committee and external directors) is conducted by the Representative Director and President, and the Governance Committee reviews the appropriateness of the level of remuneration amounts, including individual evaluation.

(ii) Evaluation of the Representative Director and President is reported to the Governance Committee, which reviews the evaluation process and the views on evaluation to ensure objectivity and fairness.

3. Method of determining directors' remuneration

Remuneration of directors is determined in accordance with the above calculation method by Representative Director and President Kenji Ebihara, who has been authorized by the Board of Directors, within the maximum amount of total remuneration determined by a resolution of the General Meeting of Shareholders.

4. Activities conducted during the process of determining the amount of directors' remuneration

During the process of determining directors' remuneration, members of the Governance Committee, mainly comprised of external directors, exchange their opinions on matters such as the ratio between AICA's business results and the business results of the duties each director is in charge of, as well as the relationship between the evaluation grade and the rate of change, in order to enhance results and responsibilities, objectivity, and transparency.

(4) Policies and procedures for the appointment/dismissal and the nomination of candidates

- From the perspectives of medium- to long-term improvement of AICA's corporate value and sustainable growth, the Board of Directors nominates persons who are suited to become AICA's directors upon comprehensively considering their experience, capabilities and achievements, regardless of their nationality or gender, and candidates are elected by a resolution of the General Meeting of Shareholders.

During the process of nominating candidates for director, the Governance Committee, mainly comprised of external directors, conducts deliberation.

- Although AICA has not established a specific process for the dismissal of senior management at this moment, AICA will consider a specific process including criteria for dismissal in the future.

(5) Explanations with respect to individual appointments/dismissals and nominations

- With respect to all candidates for director, AICA provides individual reasons for their nominations in its Shareholders Meeting Convocation Notice. AICA has had no record of dismissing a member of senior management so far.

**Supplementary Principle 4.1.1 Scope and Content of the Matters Delegated to the Management**

- The Board of Directors makes decisions on important managerial matters and supervises business execution in accordance with laws and regulations, the Articles of Incorporation, and the Rules of the Board of Directors. Other decisions on business execution are made at meetings such as the Management Meeting, the Management Promotion Meeting and the Group Representatives Meeting. Furthermore, since the transition to a Company with Audit and Supervisory Committee, it has become possible to delegate the decision-making authority of the Board of Directors on business execution to directors. Under the appropriate supervision of the Board of Directors, AICA is striving to further expedite managerial decision-making and execution.

**Principle 4.9 Independence Standards and Qualification for Independent Directors**

- The Board of Directors has established its own independence standards in order to select candidates for independent external director who can contribute to the Board of Directors, and the details of the standards are disclosed in the Reference Materials for the General Meeting of Shareholders.

**Supplementary Principle 4.10.1 Disclosure of Independence, Authorities and Roles of the Nomination/Remuneration Committee**

- AICA has established the Governance Committee, a voluntary body chaired by an external director, which is composed of seven members, including external directors (some of them are members of the Audit and Supervisory Committee), Representative Director, and a full-time member of the Audit and Supervisory Committee.
- As of June 30, 2022, independent external directors accounted for 57% of the members of the Governance Committee.
- The Governance Committee discusses key matters concerning governance, including the nomination and remuneration of management executives and directors, and reports them to the Board of Directors.

**Supplementary Principle 4.11.1 Balance, Diversity, and Number of the Members of the Board of Directors**

- From the perspectives of medium- to long-term improvement of AICA's corporate value and sustainable growth, AICA believes that its Board of Directors should be comprised of members, including external directors, who as a whole can attain an appropriate balance between knowledge, experience and skills, and who can think from a managerial perspective, regardless of their nationality, age or gender. AICA has also set the size of the Board of Directors so that it can manage and supervise executive duties in light of AICA's organizational makeup.

The policy regarding the appointment of directors is as stipulated in Principle 3.1.4.

For the skill matrix of directors, refer to Skill Matrix (Reference) at the end of this report.

**Supplementary Principle 4.11.2 Concurrent Positions of Directors**

- Concurrent positions of directors, including external directors, as officer of other listed companies are disclosed annually in the Shareholders Meeting Convocation Notice and the Annual Securities Report.

**Supplementary Principle 4.11.3 Analysis and Evaluation on the Effectiveness of the Board of Directors**

- In order to verify the effectiveness of the Board of Directors, AICA conducts an annual survey of all directors and members of the Audit and Supervisory Committee regarding the structure, operation, and agenda of the Board of Directors and the Board of Directors' support structure. The effectiveness of the Board of Directors is evaluated on the basis of the results of this survey. In the survey conducted in February 2022, responses of "appropriate or reasonably appropriate" were obtained for all except two of the matters surveyed. Based on this positive feedback, AICA confirmed that our Board of Directors is generally functioning appropriately and that its effectiveness is being ensured.
- On the other hand, although there were no issues (insufficient/inappropriate for more than three respondents), AICA recognized the need for continued improvement in the following areas that were issues in the previous fiscal year: 1) insufficient explanations on terms used in materials for meetings of the Board of Directors, insufficient explanations on prior background and past agenda items discussed, and insufficient advance explanations on important items; and 2) insufficient discussions at meetings of the Board of Directors on the appointment and dismissal of senior management. The number of respondents who answered "Insufficient" was one for each of these items. The items 1) and 2) above, which were issues in the previous fiscal year, have been implemented as follows. Regarding 1), at the January 2021 Board of

Directors and the Management Meeting, explanations of terminology, history/content of agenda items from the past, and prior explanations of important matters were provided, and regarding 2), the reasons for the appointment/dismissal of senior management, including those discussed at the Governance Committee, were explained and discussed at the Board of Directors.

#### **Supplementary Principle 4.14.2 Training Policy for Directors**

- For newly appointed external directors, AICA provides explanations on its Corporate Policy and arranges site visits to branches and plants at the time of their appointment, enabling them to deepen their understanding of AICA and its business. Additional opportunities to deepen the understanding of the business are provided after appointment as necessary.
- For newly appointed directors, AICA provides opportunities for them to fully understand the roles and responsibilities required of a director. In addition, after their appointment, AICA strives to update their required knowledge such as by regularly holding seminars with external lecturers.
- The details of training that have been conducted are reported to the Governance Committee, which verifies whether these measures have been appropriately taken by referring to advice from its members.

#### **Principle 5.1 Policy for Constructive Dialogue with Shareholders**

The Basic Policy for constructive dialogue with Shareholders and Investors is available on our corporate website. Visit the following URL for more information (available in Japanese only).

<https://www.aica.co.jp/company/ir/disclosure/>

#### **Principle 5.2 Establishing Business Plans Including Investments in Human Capital**

While ensuring that AICA has sufficient operating cash flow essential for generating funds necessary for investing in growth areas and allocating some of them to shareholder returns, AICA will accumulate internal reserves and reinvest capital in the growth areas by using an appropriate degree of financial leverage. AICA will strive to maintain the ROE around 10% and achieve a sustainable profit increase through reinvestment at capital efficiency exceeding the cost of capital.

- Under the current Medium-Term Business Plan “Change & Grow 2400,” AICA will pursue investments in new businesses through M&A and other means while expanding and upgrading the existing businesses to achieve sustainable growth. In addition, AICA plans to increase investment in equipment and IT to promote automation, prepare for climate change, and strengthen BCP. The total investment in equipment and businesses is expected to be 40 billion yen for the three years. Through the M&A activities of new businesses, AICA aims to achieve synergy to expand sales channels and enhance technical and production capabilities by seeking to acquire chemical products and construction material businesses overseas, companies producing functional materials in Japan and abroad, material repair/reinforcing services in Japan, and the segments related to the existing businesses in Japan. In addition, AICA plans to spend up to 12 billion yen over the three years to develop core products in the next generation and boost the development capabilities by reinforcing the strength in chemistry and design to create new value. AICA believes that human resources are the most important assets for AICA and is committed to enhancing training programs, fostering leadership skills, encouraging career advancement, and developing human resources for global operations. While developing human resources to enhance corporate sustainability, AICA promotes diversity in the workplace allowing the organization to grow with the employees.

#### **Supplementary Principle 5.2.1 Presenting the Basic Policy regarding the Business Portfolio and its Review Status in Formulating and Disclosing Business Strategies**

- AICA’s business model stems from its strength in chemistry and design and consists of the two segments: Chemical Products and Construction Materials. AICA has distinguished itself from the competitors in the housing, non-housing, and non-construction markets by creating unique products through mutual inspiration and collaboration of these segments. AICA has demonstrated steady growth by leveraging its strength and putting more effort into overseas expansion in recent years. In the new Medium-Term Business Plan launched in fiscal year 2021, one of the basic policies is to create and expand growth businesses consisting of the following three domains: (1) Products designed to resolve social issues of Japan (AS Products), (2) Overseas business, and (3) Business for non-construction sectors. AICA aims to grow these businesses 1.4 times more during the three-year period and plans to expand the market and business domains through M&A, creating synergy, facility reinforcement, sales channel expansion, and brand enhancement.



## 2. Capital Structure

Foreign Shareholding Ratio	From 20% to less than 30%
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### [Status of Major Shareholders]

Name / Company Name	Number of Shares Owned	Percentage (%)
The Master Trust Bank of Japan, Ltd. (trust account)	11,689,200	17.89
Custody Bank of Japan, Ltd. (trust account)	3,944,500	6.04
AICA Kogyo Business Partners' Shareholding Association	2,302,433	3.52
The Bank of New York Mellon (International) Limited 131800	1,797,800	2.75
AICA Kogyo Employees Shareholding Association	1,580,723	2.42
SUMITOMO LIFE INSURANCE COMPANY	1,318,000	2.02
MUFG Bank, Ltd.	1,300,016	1.99
Dai Nippon Printing Co., Ltd.	1,293,743	1.98
Custody Bank of Japan, Ltd. (trust account 4)	1,262,100	1.93
Denka Company Limited	1,229,084	1.88

Controlling Shareholder (except for Parent Company)	—
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Parent Company	None
Listed Stock Market of Parent Company	

Supplementary Explanation	
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## 3. Corporate Attributes

Listed Stock Market and Market Section	Tokyo Stock Exchange, Prime Market Nagoya Stock Exchange, Premier Market
Fiscal Year-End	March
Type of Business	Chemicals
Number of Employees (consolidated) as of the End of the Previous Fiscal Year	1000 or more
Sales (consolidated) as of the End of the Previous Fiscal Year	From ¥100.0 billion to less than ¥1 trillion
Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year	From 10 to less than 50

## 4. Policy on Measures to Protect Minority Shareholders in Conducting Transactions with Controlling Shareholder

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**5. Other Special Circumstances which may have Material Impact on Corporate Governance**

[Status of Major Shareholders] AICA holds 2,244,810 shares of treasury stock.
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## II. Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Execution of Business, and Oversight in Management

### 1. Organizational Composition and Operation

Organization Form	Company with Audit and Supervisory Committee
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#### [Directors]

Maximum Number of Directors Stipulated in Articles of Incorporation	Directors who are not members of the Audit and Supervisory Committee: 12 Directors who are members of the Audit and Supervisory Committee: 5
Term of Office Stipulated in Articles of Incorporation	Directors who are not members of the Audit and Supervisory Committee: 1 year Directors who are members of the Audit and Supervisory Committee: 2 years
Chairperson of the Board	Chairman
Number of Directors	Directors who are not members of the Audit and Supervisory Committee: 6 Directors who are members of the Audit and Supervisory Committee: 3
Appointment of External Directors	Appointed
Number of External Directors	Directors who are not members of the Audit and Supervisory Committee: 2 Directors who are members of the Audit and Supervisory Committee: 2
Number of Independent Directors	Directors who are not members of the Audit and Supervisory Committee: 2 Directors who are members of the Audit and Supervisory Committee: 2

#### External Directors' Relationship with AICA (1)

Name	Attribute	Relationship with AICA*											
		a	b	c	d	e	f	g	h	i	j	k	
Kenji Ogura	From another company												
Ayako Shimizu	Lawyer												
Shoji Miyamoto	CPA												
Mitsuko Yamamoto	From another company												

\* Categories for "Relationship with AICA"

- Executive of the company or its subsidiaries
- Non-executive director or executive of a parent company of AICA
- Executive of a fellow subsidiary company of AICA
- A party whose major client or supplier is AICA or an executive thereof
- Major client or supplier of AICA or an executive thereof
- Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from AICA besides compensation as a director
- Major shareholder of AICA (or an executive of the said major shareholder if the shareholder is a legal entity)
- Executive of a client or supplier company of AICA (which does not correspond to any of d, e, or f) (the director himself/herself only)

- i. Executive of a company, between which and AICA external directors are mutually appointed (the director himself/herself only)
- j. Executive of a company or organization that receives a donation from AICA (the director himself/herself only)
- k. Others

External Directors' Relationship with AICA (2)

Name	Designation as Independent Director	Supplementary Explanation of the Relationship	Reason for Appointment
Kenji Ogura	○	Designated as Independent Director.	<p>[Reason for appointment as external director] Mr. Kenji Ogura has extensive experience and knowledge as a corporate executive, which AICA believes he will be able to leverage in enhancing AICA's management structures.</p> <p>[Reason for designation as Independent Director] Because he has no background at any of AICA's subsidiaries, major shareholders, or major trading partners, he has no particular stake in AICA, and AICA believes that no conflict of interest with general shareholders would arise. For these reasons, he has been designated as an Independent Director.</p>
Ayako Shimizu	○	Designated as Independent Director.	<p>[Reason for appointment as external director] Ms. Ayako Shimizu will be able to leverage her extensive expert knowledge and experience as an attorney in the supervision of AICA's management. AICA also believes that, as an external director, she will be able to offer advice based on diversity perspectives.</p> <p>[Reason for designation as Independent Director] Because she has no background at any of AICA's subsidiaries, major shareholders, or major trading partners, she has no particular stake in AICA, and AICA believes that no conflict of interest with general shareholders would arise. For these reasons, she has been designated as an Independent Director.</p>
Shoji Miyamoto	○	Designated as Independent Director.	<p>[Reason for appointment as external director who is a member of the Audit and Supervisory Committee] Mr. Masashi Miyamoto has extensive expert knowledge and experience as a certified public accountant. AICA believes that he will be able to offer advice and oversight as an external director and member of the Audit and Supervisory Committee.</p> <p>[Reason for designation as Independent Director] Because he has no background at any of AICA's subsidiaries, major shareholders, or major trading partners, he</p>

			has no particular stake in AICA, and AICA believes that no conflict of interest with general shareholders would arise. For these reasons, he has been designated as an Independent Director.
Mitsuko Yamamoto	○	Designated as Independent Director.	[Reason for appointment as external director who is a member of the Audit and Supervisory Committee] Ms. Mitsuko Yamamoto has abundant experience as a corporate manager and extensive knowledge, especially in terms of labor management and diversity. AICA believes that he will be able to offer advice and oversight as an external director and member of the Audit and Supervisory Committee. [Reason for designation as Independent Director] Because he has no background at any of AICA's subsidiaries, major shareholders, or major trading partners, he has no particular stake in AICA, and AICA believes that no conflict of interest with general shareholders would arise. For these reasons, he has been designated as an Independent Director.

**[Audit and Supervisory Committee]**

Committee's Composition and Attributes of Chairperson

	All Committee Members	Full-time Members	Internal Directors	External Directors	Chairperson
Audit and Supervisory Committee	3	1	1	2	Internal Director

Appointment of Directors and/or Staff to Support the Audit and Supervisory Committee	Appointed
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Matters Related to the Independence of Such Directors and/or Staff from Executive Directors

AICA has assigned dedicated staff to the Audit and Supervisory Committee Secretariat for supporting the Audit and Supervisory Committee and assisting the execution of its duties. In selecting, transferring, or changing the treatment of such dedicated staff, prior consent of the Audit and Supervisory Committee is required and the Audit and Supervisory Committee has the authority to give instructions.

Cooperation among Audit and Supervisory Committee, Accounting Auditor, and Internal Audit Unit

The Accounting Auditor regularly reports on its audits, and meetings to exchange opinions are held regularly. The Internal Audit Unit, an organization dedicated to internal audits, audits business execution divisions. The four staff members in the Internal Audit Unit report on the details of audits and the status of their execution on an ongoing basis, working closely with Audit and Supervisory Committee.

**[Voluntary Establishment of Committee(s)]**

Voluntary Establishment of Committee(s) Corresponding to Nomination Committee or Remuneration Committee	Established
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Committee’s Name, Composition, and Attributes of Chairperson

	Committee Corresponding to Nomination Committee	Committee Corresponding to Remuneration Committee
Committee’s Name	Governance Committee	Governance Committee
All Committee Members	7	7
Full-time Members	0	0
Internal Directors	3	3
External Directors	4	4
Internal Experts	0	0
Other	0	0
Chairperson	External director	External director

Supplementary Explanation

The Governance Committee, chaired by an external director and whose members are external directors, Representative Director and a full-time member of the Audit and Supervisory Committee, was established in April 2016 as an advisory committee to the Board of Directors.

**[Independent Directors]**

Number of Independent Directors	4
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Matters relating to Independent Directors

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**[Incentives]**

Incentive Policies for Directors	Performance-linked Remuneration and Other
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Supplementary Explanation

Although AICA had granted stock options until May 2013, AICA has not granted them since 2014. Beginning in the current fiscal year, AICA has introduced a restricted stock remuneration system for the purpose of sustainable enhancement of AICA’s corporate value and facilitating further sharing of value with shareholders.

Policies on the remuneration of directors are as stated in I-1. “Basic Views,” “Disclosure Based on the Principles of the Corporate Governance Code,” “Principle 3.1 Full Disclosure,” (3) “Board policies and procedures in determining the remuneration of the senior management and directors” of this report.

Recipients of Stock Options	Internal Directors
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Supplementary Explanation

Recipients are those who have unexpired rights to exercise the stock options granted by May 2013.

**[Director Remuneration]**

Disclosure of Individual Directors' Remuneration	No Individual Disclosure
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Supplementary Explanation

The total annual amount of remuneration paid to directors (excluding directors who are members of the Audit and Supervisory Committee) was 277 million yen. The maximum amount of remuneration is 370 million yen per year, which does not include the employee salary portion of remuneration for directors who concurrently serve as employees.

Policy on Determining Remuneration Amounts and Calculation Methods	Established
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Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods

AICA determines directors' remuneration amounts by taking into account factors such as their position, responsibilities, and tenure upon considering AICA Group's business results, within the scope approved by the General Meeting of Shareholders.

**[Supporting System for External Directors]**

For external directors, the secretariat provides agenda items for meetings of the Board of Directors and sends materials in advance prior to the date of a meeting. In addition, upon request from an external director, advance explanations on agenda items for a meeting of the Board of Directors are provided.

**[Status of Former Representative Director and President, etc.]**

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Name of Advisor/Senior Advisor, etc. who previously served as Representative Director and President, etc.

Name	Position	Duties	Working pattern (full-time/ part-time, paid/unpaid, etc.)	Retirement date	Term of office

Total number of Advisors/Senior Advisors, etc. who are former Representative Director and President, etc.	—
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Other

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## 2. Matters on Functions of Business Execution, Auditing, Oversight, Nomination and Remuneration Decisions (Overview of Current Corporate Governance System)

### [Directors and the Board of Directors]

The Board of Directors strives to enhance corporate governance by determining management policies, matters prescribed by laws and regulations, and other important managerial matters and supervising the status of business execution in accordance with the Rules of the Board of Directors. The Board of Directors is comprised of nine directors, including four external directors appointed to enhance the oversight function of the Board of Directors. In addition to holding one ordinary meeting of the Board of Directors every month in principle, extraordinary meetings of the Board of Directors are held as needed.

### [Governance Committee]

In April 2016, AICA established a Governance Committee, whose members are primarily external directors (including two directors who are members of the Audit and Supervisory Committee), as a voluntary advisory committee to the Board of Directors. The Governance Committee deliberates on important matters regarding governance, including the nomination and remuneration of senior management, in an effort to achieve sustainable growth of AICA and further enhance its governance functions. During the 122nd fiscal year (April 2021 to March 2022), the Governance Committee held six meetings. Following the transition to a Company with Audit and Supervisory Committee, roles are divided between the Audit and Supervisory Committee and the Governance Committee by sharing the details of deliberations at the Governance Committee with the Audit and Supervisory Committee in order for the Audit and Supervisory Committee to exercise its right to state its opinions and ensuring that the activities of the Audit and Supervisory Committee and the Governance Committee do not overlap.

### [Members of the Audit and Supervisory Committee and the Audit and Supervisory Committee]

AICA is a Company with Audit and Supervisory Committee, and its Audit and Supervisory Committee is comprised of three directors who are members of the Audit and Supervisory Committee, including two external directors. AICA has appointed one full-time director who is a member of the Audit and Supervisory Committee. The Audit and Supervisory Committee meeting is held once a month in principle. The full-time directors who are members of the Audit and Supervisory Committee attended Management Meetings, Management Promotion Meetings, and other important meetings, and reviewed approval documents and other important documents. In addition, AICA has established a framework to maintain close coordination with the Internal Audit Unit and other departments in charge of the monitoring functions on the internal control system. In order to prepare for an event that the number of directors who are members of the Audit and Supervisory Committee falls below the number stipulated in laws and regulations, AICA has appointed one substitute director who is a member of the Audit and Supervisory Committee.

### [Executive officer system]

While AICA introduced an executive officer system in April 2002 in an effort to separate the oversight functions and executive functions of directors, AICA has had internal directors serve concurrently as executive officers since June 2018, in light of the actual conditions in which internal directors are responsible for important executive functions. Through this structure, AICA is working to further expedite business execution by clarifying the division of duties within executive functions.

### [Management Meeting]

AICA has established a Management Meeting, whose participants are comprised of directors and managers in charge of business execution. Management Meetings are held once a month. It has a decision-making function based on agenda items submitted to the Board of Directors and AICA's regulations, and swiftly facilitates matters decided by the Board of Directors and deliberates and reports on business execution.

### [Management Promotion Meeting]

Participants at Management Promotion Meetings are directors, executive officers, and heads of business execution divisions. With participants reporting on business execution and considering issues at Management Promotion Meetings held every six months in principle, AICA has established a framework that enables oversight of business activities and execution status.



### **3. Reasons for Adoption of Current Corporate Governance System**

Based on a resolution at the Ordinary General Meeting of Shareholders held on June 23, 2020 on amendments to the Articles of Incorporation for a transition to a Company with Audit and Supervisory Committee, AICA transitioned from a Company with Board of Auditors to a Company with Audit and Supervisory Committee effective on the same date. Since this transition, the Audit and Supervisory Committee, more than half of whose members are external directors, has been responsible for auditing and supervising the legality and appropriateness of the execution of duties by directors for the realization of more transparent management. In this way, AICA aims to strengthen our corporate governance further and also to build a framework that will more appropriately meet the expectations of our stakeholders in Japan and overseas. Furthermore, it has become possible to delegate the decision-making authority of the Board of Directors on business execution to directors. Under the appropriate supervision of the Board of Directors, AICA has been striving to further expedite managerial decision-making and execution.

### III. Implementation of Measures for Shareholders and Other Stakeholders

#### 1. Measures to Vitalize the General Shareholder Meetings and Smooth Exercise of Voting Rights

	Supplementary Explanations
Early Notification of General Shareholder Meeting	The Convocation Notice was sent on June 3 for the fiscal year under review.
Scheduling AGMs Avoiding the Peak Day	The Meeting was held on June 24 for the fiscal year under review.
Allowing Electronic Exercise of Voting Rights	Voting rights may be exercised via the Internet by accessing the website for exercise of voting rights designated by AICA using a computer, a smartphone, or a mobile phone.
Participation in Electronic Voting Platform	AICA participates in an electronic voting platform.
Providing Convocation Notice (Summary) in English	AICA is currently engaging in preparatory work to create an English version of the Convocation Notice of its 122nd Ordinary General Meeting of Shareholders scheduled for June 2022.
Other	
Not Applicable	

#### 2. IR Activities

	Supplementary Explanations	Explanations by Representatives
Preparation and Publication of Disclosure Policy	In accordance with its basic policy on information disclosure, AICA has stipulated a Disclosure Policy on standards for information disclosure, establishment of internal systems, methods of information disclosure, a quiet period and notes regarding business results forecasts and the future outlook. Details are provided on AICA's website.	
Regular Investor Briefings for Individual Investors	AICA holds investor briefings irregularly. AICA publishes questions and answers from investor briefings for analysts and institutional investors on its website so that individual investors can review the proceedings of the investor briefings as well.	Not available
Regular Investor Briefings for Analysts and Institutional Investors	AICA holds Financial Results Briefings at the fiscal year ended and the end of second quarter.	Available
Regular Investor Briefings for Overseas Investors		Not available
Posting of IR Materials on Website	AICA has an IR section on its website, where materials such as Summary of Consolidated Financial Results, IR briefing materials, Securities Reports and business reports are provided.	
Establishment of Department and/or Manager in Charge of IR	Corporate Planning Department, Public Relations and IR Group	
Other		
Not Applicable		

### 3. Measures to Ensure Due Respect for Stakeholders

	Supplementary Explanations
<p>Implementation of Environmental Activities, CSR Activities etc.</p>	<p>&lt;Basic Policy&gt;  AICA conducts its corporate activities to achieve the business objectives under the AICA Policies consisting of the Corporate Principle, the Corporate Philosophy, the Corporate Policy, the Sustainability Policy, and the AICA Group Code of Conduct. The Sustainability Policy defines the principles concerning environmental conservation and CSR activities as follows:  We address social issues through our business activities to contribute to the creation of a better society.<sup>2</sup> We have established “Compliance with laws and regulations,” “Respect for human rights,” “Harmony with society,” “Fair business practice,” “Customer's security and trust,” “Proper information disclosure,” “Protection of company information and property,” and “Environment and safety” as the basic principles of the Code of Conduct, and we base our actions on these principles as shared values for all employees.  3. We emphasize dialogue with stakeholders, including customers, employees, shareholders, suppliers, local communities, and local governments, and respond promptly to social needs and changes.  4. We identify material issues from the perspectives of both corporate management and stakeholders, address those issues alongside our business activities, and disclose our progress in addressing them.</p> <p>&lt;Initiatives&gt;  AICA is committed to resolving various social issues through corporate activities to fulfill our mission defined as the corporate philosophy, “The AICA Group creates new value and contributes to society through continuous innovation in the spirit of our philosophy of <i>Kyosei</i>*.” AICA has identified the materiality (material issues) to be prioritized in terms of the degree of impact based on the risks and opportunities and included them in the Medium-Term Business Plan “Change &amp; Grow 2400,” which began in April 2021, to pursue corporate activities harmonized with sustainability. AICA has established a cross-divisional organization called the Sustainability Development Committee chaired by the President and is working toward fulfilling the materiality targets by having the committee lead the sustainability initiatives. These initiatives are designed to enhance the earth and society’s sustainability and help us achieve sustainable growth as a business entity.</p> <p>* Japanese word <i>Kyosei</i> stands for active engagement with the AICA Group's stakeholders (customers, employees, shareholders, suppliers, business partners, and local communities etc.) and the global environment. <i>Kyosei</i> represents our approach to minimize the adverse effects of the AICA Group's business activities and products, and to contribute to society through the value we create and build better relationships with surroundings, with aiming for a sustainable existence together with the stakeholders mentioned above.</p>
<p>Development of Policies on Information Provision to Stakeholders</p>	<p>As stated above, AICA has established in its Sustainability Policy that “ We identify material issues from the perspectives of both corporate management and stakeholders, address those issues alongside our business activities, and disclose our progress in addressing them,” making efforts to disclose corporate information in a timely and appropriate manner.  Our initiatives on sustainability issues are available in AICA Reports (integrated reports) as well as on our website. Since the Medium-Term Business Plan includes materiality (material issues), AICA plans to disclose its activity targets and results in IR documents.</p>

## IV. Matters Related to the Internal Control System

### 1. Basic Views on Internal Control System and the Progress of System Development

- (1) Systems to ensure that the execution of duties by directors and employees is in compliance with the laws and regulations as well as the Articles of Incorporation
  - 1) AICA is a Company with Audit and Supervisory Committee. Through appointment of multiple external directors, AICA enhances the oversight function of the Board of Directors on management, ensuring the transparency and fairness of management judgements.
  - 2) AICA has developed regulations regarding its compliance system, formulated the AICA Group Code of Conduct, which is a code of conduct for directors and employees to comply with laws and regulations, the Articles of Incorporation, and AICA's Corporate Philosophy, and established the Action Guidelines for AICA Group Employees to set out specific standards for conduct based on the Code of Conduct. AICA disseminates them to directors and employees of AICA and across AICA Group in an aim to ensure they are thoroughly understood.
  - 3) The Corporate Ethics Committee plans and develops legal compliance in corporate activities as well as necessary measures, and works to ensure they are thoroughly understood by directors and employees.
  - 4) AICA operates a management system that incorporates quality (ISO 9001), environment (ISO 14001), and occupational health and safety (ISO 45001) across AICA as integrated activities, and complies with requirements for each management system such as laws and regulations as well as statutory regulations.
  - 5) AICA Group facilitates the self-purifying function of an internal whistleblowing system in an aim to identify and solve issues at an early stage.
  - 6) The Internal Audit Unit, an organization dedicated to internal audits, and the Legal Division, an organization that promotes compliance activities, investigate and consider whether there are any issues with the internal control activities, compliance system, and compliance of AICA Group.
  - 7) AICA takes a resolute stance against antisocial forces and organizations that pose a threat to the order and safety of a civil society, and terminates and eliminates any relationship with them. Furthermore, AICA systematically addresses any concerns in coordination with external expert organizations such as attorneys and the police.
- (2) Systems regarding the safekeeping and management of information on execution of duties by directors
  - 1) For information and documents on execution of duties by directors, AICA maintains an appropriate system for safekeeping and management of documents in accordance with internal regulations and related document management manuals.
  - 2) The Corporate Planning Department stores and manages minutes of the General Meetings of Shareholders, meetings of the Board of Directors, Management Meetings, Management Promotion Meetings, and Group Representatives Meetings, and approval documents (*Ringi-sho*) as well as related materials. The Legal Division stores and manages important documents such as contracts and related materials.
  - 3) Directors and executive officers may review or copy these documents at any time.
- (3) Regulations on the management of risk of loss and other systems
  - 1) Respective departments in charge assess various risks surrounding the business environment, including legal compliance, disasters, products, quality, logistics, health and safety, the environment, information security, foreign exchange, and prices of raw materials, and establish regulations and guidelines. Furthermore, risk assessments are periodically reported to the Board of Directors and the Audit and Supervisory Committee.
  - 2) The Board of Directors and the Audit and Supervisory Committee deliberate on each risk as necessary, and if a legal judgement is required, take measures such as by soliciting opinions of corporate lawyers or other experts.
  - 3) AICA Group has formulated rules on reporting in case of a crisis. AICA Group responds to a crisis swiftly and appropriately such as by establishing a crisis management headquarters in an aim to minimize damages, while communicating information to outside AICA in a timely and appropriate manner.
- (4) Systems to ensure that the execution of duties by directors will be conducted efficiently

- 1) The Board of Directors strives to enhance corporate governance by determining management policies, matters prescribed by laws and regulations, and other important managerial matters and supervising the status of business execution in accordance with the Rules of the Board of Directors.
  - 2) AICA has adopted an executive officer system, under which internal directors (excluding directors who are members of the Audit and Supervisory Committee) concurrently serve as executive officers. AICA works to expedite business execution by clarifying the division of duties of executive officers within executive functions.
  - 3) AICA formulates annual targets based on a Medium-Term Business Plan. Each division formulates targets and budgets for achieving the companywide targets, and develops and executes specific measures.
- (5) Systems to ensure proper business conduct in the corporate group comprised of AICA and its subsidiaries
- 1) AICA establishes corporate action guidelines for its corporate group and comprehensively manages its business upon designating those responsible for each subsidiary from among AICA's senior management such as directors and executive officers in an aim to unify compliance and philosophy across AICA Group.
  - 2) In order to understand the management conditions of its subsidiaries and to ensure proper business conduct, AICA requires subsidiaries to obtain approval of AICA (the Board of Directors or a Representative Director) or provide reports to AICA with respect to important matters in accordance with the Regulations on Management of Affiliated Companies.
  - 3) AICA holds Group Representatives Meetings, at which reports on the status of business execution in AICA Group and reports on important matters are made, and engages in swift decision-making and proper business execution across AICA Group.
- (6) Matters regarding employees who assist the duties of the Audit and Supervisory Committee, matters regarding the independence of such employees from directors other than members of the Audit and Supervisory Committee, and matters regarding the effectiveness of instructions to such employees
- 1) In order to assist the duties of the Audit and Supervisory Committee and support the execution of its duties, AICA assigns dedicated staff in the Audit and Supervisory Committee Secretariat.  
When selecting, transferring, or changing the treatment of employees who assist the duties of the Audit and Supervisory Committee and support the execution of its duties, AICA obtains prior consent of the Audit and Supervisory Committee.
  - 2) The Audit and Supervisory Committee has the authority to give instructions to employees who assist the duties of the Audit and Supervisory Committee and support the execution of its duties.
- (7) Systems for directors (excluding directors who are members of the Audit and Supervisory Committee) and employees to provide reports to the Audit and Supervisory Committee and other systems on reporting to the Audit and Supervisory Committee
- 1) AICA's directors (excluding directors who are members of the Audit and Supervisory Committee), directors and corporate auditors of subsidiaries of AICA, and employees of AICA and its subsidiaries provide necessary reports and information upon request by the Audit and Supervisory Committee.
  - 2) When they discover facts that may cause significant damages to AICA, AICA's directors (excluding directors who are members of the Audit and Supervisory Committee), directors and corporate auditors of subsidiaries of AICA, and employees of AICA and its subsidiaries shall immediately report such facts to the Audit and Supervisory Committee within a scope that does not violate laws and regulations. In addition, matters stipulated by laws and regulations as well as the following matters determined by discussions with directors are reported.  
\* Matters concerning the development and operation of the internal control system, the status of audits by corporate auditors of subsidiaries, important accounting policies, accounting standards and changes thereto, the contents of announcements on business results and business results forecasts, the contents of important disclosure documents, approval documents (*Ringi-sho*), minutes of meetings requested by a member of the Audit and Supervisory Committee, etc.
  - 3) AICA ensures that those who make reports to the Audit and Supervisory Committee will not suffer disadvantages.
- (8) Matters regarding the policy on processing of expenses incurred for the execution of duties of the Audit and Supervisory Committee

Expenses necessary for the execution of duties of the Audit and Supervisory Committee are borne by AICA upon request.

- (9) Other systems to ensure that audits by the Audit and Supervisory Committee are conducted effectively
- 1) The Audit and Supervisory Committee secures the exchange of opinions with the Accounting Auditor and a framework to obtain cooperation and assistance from the internal audit divisions and other divisions.
  - 2) Representative Director holds meetings to exchange opinions with the Audit and Supervisory Committee and the Accounting Auditor as needed.
  - 3) The Audit and Supervisory Committee, when it deems it necessary for conducting audits, utilizes corporate lawyers, certified public accountants, and other experts.
- (10) Systems to ensure the reliability of financial reporting  
AICA has established an Internal Control Committee for AICA and AICA Group to appropriately address the internal control evaluation reporting system for financial reporting under the Financial Instruments and Exchange Act, and develops a system to ensure the reliability of financial reporting by evaluating that the mechanism is properly functioning on an ongoing basis.

## 2. Basic Views on Eliminating Anti-Social Forces

AICA takes a resolute stance against antisocial forces and organizations that pose a threat to the order and safety of a civil society, and terminates and eliminates any relationship with them. Furthermore, AICA systematically addresses any concerns in coordination with external expert organizations such as attorneys and the police.

## V. Other

### 1. Adoption of Anti-Takeover Measures

Adoption of Anti-Takeover Measures	Not Adopted
Supplementary Explanation	
—	

### 2. Other Matters Concerning Corporate Governance System

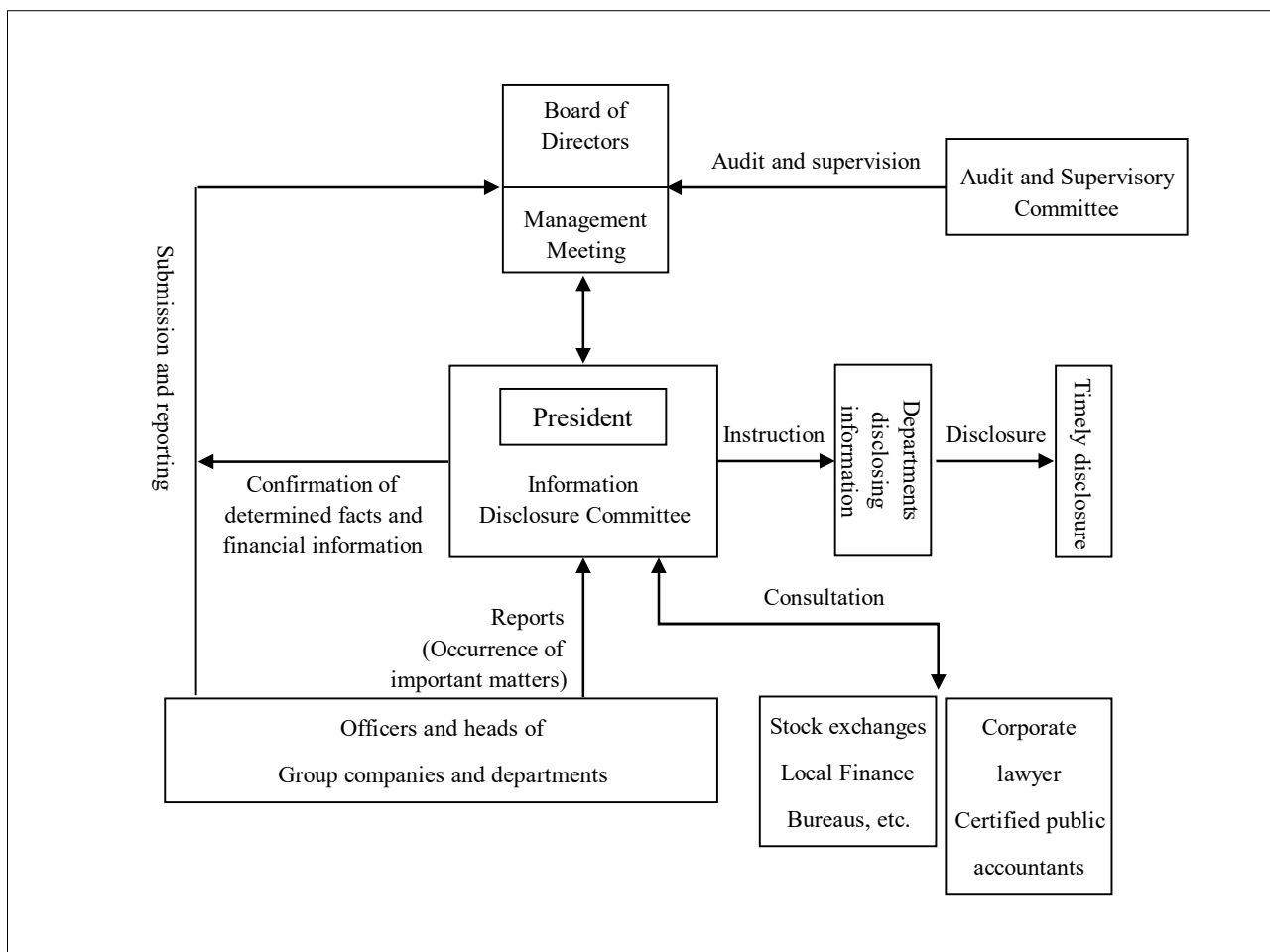
- (1) Standards for information disclosure  
As a company that is widely trusted by society, AICA has a basic policy of disclosing information about AICA to all stakeholders at the right time and in the most fair and appropriate manner. AICA conducts information disclosure in compliance with related laws and regulations such as the Companies Act and the Financial Instruments and Exchange Act, and the rules for timely disclosure prescribed by the stock exchanges on which our shares are listed. Even for information that is not subject to the Companies Act and the timely disclosure rules, if AICA believes that the information is important for shareholders and investors to make investment decisions, AICA will disclose that information, giving consideration to fairness and timeliness.
- (2) Establishment of internal systems  
AICA has established an Information Disclosure Committee that promotes and manages information disclosure activities to conduct information disclosure in accordance with AICA's Disclosure Policy. The Information Disclosure Committee discusses the formulation, revisions, and operation of the Disclosure Policy, as well as the appropriateness, fairness, transparency, and timeliness of information disclosure activities. The Information Disclosure Committee is chaired by the President and comprised of members from various divisions appointed by the President. In addition, to prevent insider trading, AICA has stipulated basic

matters for compliance regarding appropriate management of internal information and purchases and sales of shares in its internal rules.





**[Outline of Timely Disclosure System (Schematic Diagram)]**



## Reference: Skill Matrix of Directors

No.	Name	Position in Company	Appointment	Attribute	Expertise						
					Corporate Management	Global Experience	Sales & Marketing	Engineering, Production Technologies, and R&D	Sustainability	Legal & Risk Management	Finance & Accounting
1	Yuji Ono	Representative Director and Chairman	Reappointed	Internal	✓	✓	✓	✓	✓		
2	Kenji Ebihara	Representative Director, President and Executive Officer	Reappointed	Internal	✓	✓	✓	✓	✓		
3	Satoshi Toudou	Director and Senior Managing Executive Officer	Reappointed	Internal	✓	✓	✓		✓	✓	✓
4	Nobuyuki Omura	Director and Managing Executive Officer	Reappointed	Internal	✓	✓	✓		✓		
5	Kenji Ogura	Director	Reappointed	External Independent	✓				✓	✓	✓
6	Ayako Shimizu	Director	Reappointed	External Independent					✓	✓	
7	Ryoji Mori	Director Member of Audit and Supervisory Committee	Reappointed	Internal	✓	✓		✓	✓	✓	
8	Shoji Miyamoto	Director Member of Audit and Supervisory Committee	Reappointed	External Independent	✓				✓	✓	✓
9	Mitsuko Yamamoto	Director Member of Audit and Supervisory Committee	New	External Independent	✓		✓		✓		

## Disclosures Under the TCFD Recommendations

### Governance Structure for Climate Change Response

In the Medium-Term Business Plan that began in April 2021, AICA has incorporated “responding to climate change” as one of our materialities. AICA has established a Climate Change Response Committee within the Sustainability Development Committee, which is chaired by the President and Executive Officer, to drive forward these activities. The Sustainability Development Committee provides quarterly reports to the Board of Directors on the status of progress in the KPIs set for each of the materialities, including “responding to climate change,” and the Board of Directors deliberates, approves, guides, and supervises the reported matters.

### ■ Sustainability Development Framework

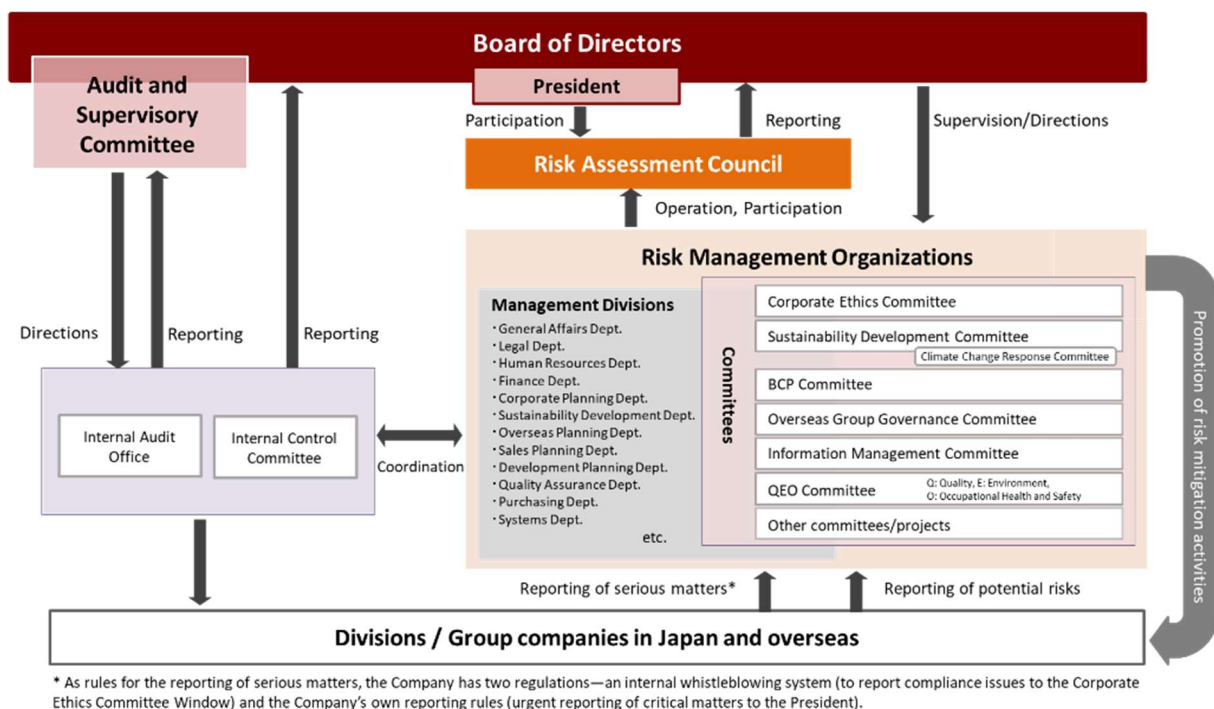


### Risk Management in Climate Change Response

To mitigate losses caused by unforeseen situations, AICA conducts a company-wide risk survey, including of AICA Group companies, once a year. In fiscal year 2022, AICA established a Risk Assessment Council, which is attended by the President and Executive Officer and the officers in the organization responsible for risk management. This Council deliberates on the validity of the potential for occurrence and degree of impact of risks reported by individual companies and divisions, and reports on those risks to the Board of Directors on the basis of those deliberations. Serious risks identified in this process are compiled as “Business risks” and published in the Securities Report and on our website. Henceforth, AICA intends to confirm the status of these risks specified by the Risk Assessment Council on a regular basis.

Through the above process, “climate change” was published as a serious risk and identified as a materiality. Climate change risks are verified periodically by the Climate Change Response Committee established within the Sustainability Development Committee and the Sustainability Development Department, which acts as the secretariat for both committees.

■ Risk Management Framework



**Recognition of Climate Change-related Risks and Our Response**

In the event of climate change related disasters such as typhoons, floods, and heatwaves that exceed expectations, the continuity of business activities as a result of damage such as temporary shutdown to the functions of business locations and damage to manufacturing equipment may be affected. Moreover, if the average temperature rises and impact on water resources due to changes in rainfall levels gradually progresses, it could affect our business environment and lead to an increase in operating costs.

On the other hand, Depending on the situation in the transition to a low carbon society, stakeholders’ demands for low-carbon products may increase, leading to increases in R&D costs, increases in capital investment for the introduction of new technologies, and rising prices of raw materials. And if regulations for the mitigation of climate change are tightened and AICA is unable to respond appropriately, our operations would probably be restricted, which could lead to the imposition of new tax burdens and increases in costs accompanying the shift to renewable energies and the capital investment accompanying efficiency improvements in production capacities. These will affect our business performance.

In response to physical risks due to climate change, the BCP Committee analyzes and monitors the situation, pursues preventive measures, and reports to the Board of Directors. A Climate Change Response Committee is responsible for the transition to a low-carbon society. This subcommittee consists of members from the relevant divisions,

Sustainability Development, Production, Research and Development, and Sales. They consider and pursue concrete response measures, whereas the Sustainability Development Committee reports directly to the Board of Directors, monitors progress, discloses information, and incorporates these measures in business plans. AICA is expanding and pursuing responses to these risks from medium to long-term perspectives.

**Scenario Analysis and Incorporation into Strategy**In May 2020, AICA declared our endorsement of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). For the expansion of disclosures under these recommendations, in fiscal year 2020, AICA conducted interviews with our stakeholders and organized the risks and opportunities due to the impact of climate change and the matters that AICA should address to respond to climate change, as shown in the table below.

This survey highlighted the recognition that the impact of climate change would continue to grow, and in addition to incorporating “responding to climate change” into the medium-term business plan, AICA set qualitative and quantitative goals.

AICA began scenario analysis from fiscal year 2021, and proceeded with an evaluation of the qualitative impact on the world in 2030 and 2050 of the 1.5°C and 4°C scenarios for each of the identified risks and opportunities using external scenarios in fiscal year 2022. AICA intend to disclose the results of this evaluation in AICA Report, which will be released in around September 2022. Further, during fiscal year 2022, AICA will conduct a quantitative financial impact evaluation of the risks and opportunities due to the impact of climate change. Going forward, based on these evaluations, AICA will formulate climate transition plans and incorporate longer-term strategies into our business strategy.

## Risks and opportunities of climate change revealed through interviews

	Category	Risks	Opportunities
Transition scenarios* <sup>1</sup>	Increase in carbon tax	<ul style="list-style-type: none"> <li>Cost increases due to introduction of carbon tax</li> </ul>	<ul style="list-style-type: none"> <li>Increase in demand for products that help reduce greenhouse gas emissions</li> </ul>
	Energy conservation and low carbon regulations/policies	<ul style="list-style-type: none"> <li>Stricter regulations on the use of raw materials derived from fossil sources</li> <li>Increase in energy costs</li> <li>Increase in costs of purchasing emissions allowances</li> <li>Decline in clients' will to build due to tax increases, causing contraction of the construction market</li> <li>Increase in waste disposal costs due to stricter regulations on plastic waste</li> </ul>	<ul style="list-style-type: none"> <li>Revitalization of the construction market due to increase in ZEH*<sup>3</sup>/ZEB*<sup>4</sup> subsidies</li> <li>Increase in demand for products that use raw materials derived from non-fossil sources</li> <li>Increase in demand for recyclable products</li> </ul>
	Replacement with low-carbon products	<ul style="list-style-type: none"> <li>Delays by AICA in responding to low-carbon technologies</li> <li>Increase in capital expenditure and R&amp;D expenditure</li> </ul>	<ul style="list-style-type: none"> <li>Increase in demand for products derived from non-fossil sources</li> <li>Increase in demand for low-carbon products</li> </ul>
	Changes in consumption behavior	<ul style="list-style-type: none"> <li>Decrease in demand for products derived from fossil sources</li> <li>Decrease in demand for non-recyclable products</li> </ul>	<ul style="list-style-type: none"> <li>Increase in demand for products derived from non-fossil sources</li> <li>Increase in demand for recyclable products</li> <li>Increase in demand for the practical use of wood</li> </ul>
	Increase in raw materials costs	<ul style="list-style-type: none"> <li>Reduction of naphtha production and soaring prices</li> <li>Cost increases due to transition to biomass feedstock</li> <li>Increase in wood procurement costs due to changes in wood demand</li> </ul>	
	Criticism of industry	<ul style="list-style-type: none"> <li>Growing criticism of companies that use raw materials derived from fossil sources</li> </ul>	<ul style="list-style-type: none"> <li>Earning trust by promoting appropriate environmental indicators and social issue-resolving products</li> </ul>
	Changes in reputation among stakeholders	<ul style="list-style-type: none"> <li>Decline in investors' evaluation of companies that are reluctant to decarbonize</li> <li>Requests from suppliers and customers to reduce greenhouse gas emissions</li> </ul>	<ul style="list-style-type: none"> <li>Improvement of corporate evaluation by strengthening initiatives</li> </ul>
Physical scenarios* <sup>2</sup>	Frequent occurrence of typhoons and torrential rain	<ul style="list-style-type: none"> <li>Damage and operation shutdowns caused by disasters</li> <li>Supply chain disruptions</li> <li>Increase in insurance premium</li> </ul>	<ul style="list-style-type: none"> <li>Expansion of business opportunities with disaster countermeasure products</li> </ul>
	Change in rainfall patterns	<ul style="list-style-type: none"> <li>Increase in freshwater procurement costs due to decline in groundwater</li> </ul>	<ul style="list-style-type: none"> <li>Increase in demand for products that help to reinforce buildings</li> </ul>
	Increase in average temperatures	<ul style="list-style-type: none"> <li>Increase in employees' risks of heat stroke</li> <li>Increase in energy costs due to increased use of air-conditioning</li> </ul>	<ul style="list-style-type: none"> <li>Increase in demand for products offering greater ease of construction due to decline in labor productivity at construction sites</li> <li>Increase in demand for insulation-related products</li> </ul>
	Rising sea levels	<ul style="list-style-type: none"> <li>Increase in disaster risks at sites near sea and rivers</li> </ul>	
	Infectious diseases	<ul style="list-style-type: none"> <li>Increase in frequency of infectious disease outbreaks</li> </ul>	<ul style="list-style-type: none"> <li>Increase in demand for antiviral products due to infectious disease epidemics</li> <li>Change in construction demand due to work-style transformations</li> </ul>

\*1 Transition scenarios: Scenarios that accompany transition to a low-carbon society, including stricter regulations related to climate and responses to transition to decarbonization technologies.

\*2 Physical scenarios: Scenarios that accompany increases in physical damage caused by growing frequency of natural disasters due to climate change and normalization of abnormal weather.

\*3 ZEH refers to Net Zero Energy House.

\*4 ZEB refers to Net Zero Energy Building.

## Action AICA Should Take

### Passive response

AICA will take measures to minimize the impacts of climate change and to prepare for risks to business continuation.

- Examples of measures to prepare for risks -
- Strengthening BCP against natural disasters
- Strengthening BCP for raw materials procurement
- Deliberation and implementation of drastic measures to reduce greenhouse gas emissions
- Optimization of the use and mix of energy
- Reduction and recycling of wastes
- Effective use of resources
- Appropriate information disclosure and engagement

### Active response

AICA will strive to develop and expand sales of products that respond to climate change and contribute to society with the aim of the sustainable development of AICA and society.

- Examples of products for adaption to climate change -
- Low-carbon products
- Products derived from biomass materials
- Recyclable products
- Products that help utilize wood resources
- Products that help reinforce buildings
- Products that offer greater ease of construction
- Insulation-related products
- Antiviral products

## Metrics and Targets

In the Medium-Term Business Plan started in April 2021, AICA set the following targets for the reduction of greenhouse gas (GHG) emissions. For Scope 1 and Scope 2, in addition to numerical reduction targets, AICA set a goal of conducting a concrete scenario analysis aimed at net zero GHG emissions, in response to the Japanese government's declaration on net zero GHG emissions by 2050. AICA recognizes that our current numerical target (reducing GHG emissions revenue intensity by 26% from fiscal year 2013 levels) for fiscal year 2030, the halfway point to achieving net zero by 2050, is insufficient and plan to engage in repeated discussions about raising our target in line with this scenario analysis.

